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TAGS: EINV EFIN ECON PREL FR
SUBJECT: FRANCE/G20: FIXATION ON TAX HAVENS

REFS: A) PARIS 0197 B) PARIS 0049 C) 08 PARIS 2024

¶1. (SBU) SUMMARY: In the context of the international financial crisis, President Sarkozy has repeatedly cited the need for international action on "tax havens," a point on which he recently said he sees "zero room to negotiate" in the G20 (ref A). Sarkozy appears to have garnered substantial European support for this position. END SUMMARY.

¶2. (U) The GOF and President Sarkozy, in particular, have given high priority to the issue of tax havens based upon both domestic political and technical considerations. On a political level, the president's efforts to reform and modernize the economy necessitate firm action against tax fraud and evasion by the wealthiest parts of society, and the establishment of safeguards. President Sarkozy came into office promising to "moralize" a capitalism that had become "perverted", a broadly if vaguely appealing notion easily personified by tax cheats. The Liechtenstein scandal in February 2008, said to involve one billion euros in tax fraud by French citizens, brought this issue to the fore. French Budget Minister Woerth quickly partnered with German Finance Minister Steinbrueck in pushing this issue, including at their co-hosted international conference in Paris in October. In parallel, Interior Ministry Aliot-Marie called for the end to the "naove approach" to dealing with economic bad actors and the establishment and enforcement of common ground rules in finance as part of a global approach to security that included economic security (Ref. C).

¶3. (U) The economic rescue package combined with highly visible increases in the government budget deficit have put the government under additional pressure to improve tax compliance. With revenues stagnating, the 40 billion euros (estimate of the Cour des Comptes, France's GAO equivalent) in annual tax fraud and evasion, 15 - 20 billion of which is linked to tax havens, is an obvious target, even for purely budgetary reasons. The opposition, notably former PM Fabius (PS) and National Assembly Finance Committee Chairman Megaud (PS) have needled the government for not formally forbidding activity in tax havens by banks receiving GOF support. The GOF has also made the technical argument that lack of transparency and prudential supervision of financial actors in non-cooperative centers aggravated the crisis and slowed its resolution. At a joint press conference with German Finance Minister Steinbrueck on March 3, 2009, Economics Minister Lagarde proposed requiring "heightened

risk" disclosures and possible increased prudential requirements for financial institutions that did business in such non-transparent financial centers.

GOF Focus on Transparency

¶4. (U) While the GOF has in the past sought greater tax harmonization, President Sarkozy stressed in a March 1 Brussels press conference that his persistent concern about non-cooperative financial centers is their lack of transparency regarding the origin and destination of funds, rather than differences in tax rates or tax systems. He and his Economics Minister have stressed this in joint statements with counterparts from London, Rome and, especially, Berlin. Bilaterally, the GOF is pursuing accords allowing it better access to tax-relevant information, e.g., in Jersey and the Isle of Man. Multilaterally, Minister Woerth has indicated the GOF's intention to "endorse" the new OECD list of non-cooperative centers, due out in the first half of 2009, in a second multilateral forum on fighting tax fraud and tax evasion, scheduled to occur in Berlin on June 23, 2009.

Consumers Shoulder Tax Burden that Jet Set can Avoid
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¶5. (SBU) French tax revenues come primarily from VAT (49.9%), personal income tax (21.4%) and corporate taxes (17.3%), placing the principal tax burden on consumers, generally, and not so much on those in higher income brackets. While residents of France are taxed on worldwide income, non-resident French citizens are not subject to income tax. Because "non-resident" is defined as having principally foreign sources of income and residing outside France 183 days of the year, some high income citizens organize their

schedules and business affairs in order to be exempt. At least some of the GOF's vehemence on this issue stems from the perceived injustice of French gliteratti decamping to Switzerland and other "havens" to avoid the heavy individual tax burden. This allows them to avoid not only income tax (maximum rate 40%, on income above 69,505 euros) but also the annual French wealth tax (0.55% for those with to net worth exceeding 790,000 euros and increasing to 1.8% on wealth over 16.5 million euros).

¶6. (SBU) Comment: GOF contacts believe the USG has taken an arms-length position over the last eight years, following early partnership with France on tax havens in the OECD. They also note that Senator Obama co-authored legislation on tax havens and believe that he is sympathetic to the French and German position. The GOF pushed hard for U.S. participation in the (virtually OECD-wide) international conference on the fight against international tax fraud and tax evasion and used the pending November elections to explain our absence. There is a high expectation, particularly in light of recent U.S. actions on UBS, that the U.S. will join the follow-up conference in Berlin on June 23, 2009.

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